Challenge

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CHALLENGE NOTES

Crystal balls for '55; state revenues and tidelands oil; gratis education and free education; an unprotective tariff; a new measuring device

THE NATION'S economists and businessmen are back from those annual get-togethers at which they try to predict the economic shape of things to come. The consensus: business will be better than in 1954, but not quite as good as in 1953. Industrial production will increase to within 2% of the 1953 high, thanks to an increased demand for steel and automobiles; prices will remain stable and might even decline a little; and unemployment should stay at or below last year's level (although there are some pessimists who foresee a temporary unemployment of as high as 4 million during the summer months). Actually, this whole business of forecasting is so complicated and involves so many "ands," "ifs," and "buts" that many statisticians and economists would just as soon do away with our annual spree of January crystal ball gazing. Forecasts, they believe, have a legitimate function as an aid to experts who know how to evaluate them and who realize their limitations. But they are of little use to most of us who have no way of differentiating between an informed and a fortunate forecast. Just because a certain economist has correctly predicted a rise in industrial production, for example, is no reason to assume that his forecast was sound. He may have been right for the wrong reasons, and since economic indicators can only move in two directions (up or down), there's always a 50-50 chance that a prediction based on false economic reasoning may turn out to be "correct." An economic forecast, useful though it may be, is no "sure thing."

U. S. Rides the Tide

"THE BEST laid schemes o' mice and men gang aft a-gley" wrote the poet Robert Burns more than a century and a half ago,

and many legislators must have thought of the canny Scot when they read recently that the revenue from the tidelands oil under the Gulf of Mexico, which they had fought so hard to award to the states, is going to end up in the Federal Treasury after all. The Tidelands Oil Bill, passed by the Congress in the last session, gave Texas title to lands extending 10.5 miles off-shore, while Louisiana was given title to lands three miles out. The rest of the continental shelf (which stretches out as far as a hundred miles) was reserved to the Federal Government. Now it seems that, contrary to expectations, it is in these lands reserved to the Federal Government that the big oil explorations are taking place. In fact, the U. S. stands to gain about 85% of the huge tidelands oil revenue from the new deposits which promise a twenty-year supply.

How "Free" Education?

BACK IN THE Soviet Union after a short stay in New York as Moscow University's delegate to Columbia University's bicentenary, Professor Boris Rybakov delivered what his bosses probably felt was a scathing attack on the American educational system. While approving of Columbia's bicentenary theme, "man's right to knowledge and the free use thereof" (which he misinterpreted to mean "the right of all people to an education and the free use of their knowledges"—only a part of the story), the professor does not feel that this goal can ever be achieved in a capitalist society. That fact, it seems, was brought home to him when he met students of "the same Columbia University as waiters and bellboys in restaurants and hotels." Our proletarian professor was shocked. "To realize their right to an education," he is quoted as saying, "they (the students) have to earn their living." Now, we don't want to intimate that waiting on tables is necessarily the most pleasant way of acquiring a college education (although, come to that, we have friends who positively enjoy it). On the other hand, we fail to see anything so terrible in having to earn a living while going to college. In the first place, it is an economic fact of life, that in order for anybody to acquire an education, *somebody* has to pay no matter what kind of a society we live in. Now, economically, it is perfectly feasible that a highly productive society such as ours could finance a college education for every young man and woman in the country. The price tag of such an educational subsidy would, of course, be tremendous (as the

taxpayer would soon find out), but an expanding economy could probably absorb it just as it has absorbed the costs of maintaining and expanding public grammar and high schools. But what about the quality of an education so provided? Even a democratic Ministry of Education, we suspect, is not above playing a little politics with teaching standards and curricula if it enjoys a monopoly in the field. In Professor Rybakov's Russia, where the truth on almost every subject under the sun is laid down by administrative decree, this is no problem. In the U. S. we do not assume that Government officials are endowed with a superior wisdom. "Man's right to knowledge and the free use thereof" is worth paying for.

Protection Against Prosperity

IT SEEMS that radio and TV set manufacturers are in a bad way. Foreign competition is ruining them. At least, that seems to be the peculiar position of the Radio-Electronics Television Manufacturers Association which recently announced that it will ask the Government to increase the import duty on radio and TV sets from the present 12½ percent to 35 percent. In explaining this move, Mr. James D. Secrest, executive vice president of the Association, pointed to growing competition from Great Britain and West Germany, which pushed our total electronic imports to a "record" high of $3.3 million in 1953—or about 0.006 percent of U. S. production (during the first eight months of 1954 such imports had dropped to $1.8 billion). Now, if such infinitesimal imports can really offer serious competition to a multi-billion dollar industry, perhaps we should have some second thoughts about that TV set (American) we bought for Christmas. Maybe it wasn't such a bargain after all. Maybe we should have bought a German or British set. If U. S. manufacturers need a 35 percent tariff to make people buy their products, well. . . . Now, it so happens that American electronic equipment is known the world over as the best there is. Our exports for 1954 amounted to some $300 million, which is more than one hundred times the value of our imports (though they surely won't stay that high if we increase our tariffs). In fact, the only thing that could hurt the electronics industry and curtail its market would be a decline, not an expansion, of competition.

Measure for Measure

THE PROBLEMS that a new invention sometimes creates were

rather vividly illustrated recently when DuPont announced the discovery of a new instrument "which records accurately the physical effort required for any job." Dr. Lucien A. Brouha, head of the Haskell physiology division of DuPont who invented the machine, views it as a "natural addition to the time and motion study field." Now, there is no doubt but that this machine will prove invaluable to companies trying to increase the efficiency of their operations. But, and it is a big "but," no machine on earth can be expected (and this one is not expected) to give a company an accurate idea of how much a particular employee is worth. For example, even if, as the machine indicates, a stenographer filing papers in a four-drawer cabinet has an energy output nearly twice that of a housewife ironing a man's shirt, this doesn't prove that her work is really twice as "valuable"—as any ironing housewife will tell you. In the first place, physical output is not the only index of productivity—many experts, indeed, believe that we are fast approaching the day when productivity will vary inversely with the amount of physical energy expended. Second, and more important, even if it were possible to measure *all* productive output (mental and physical), we would still be unable to measure the "value" of that output in terms of the volume and value of goods and services produced. Only if these limitations of machines such as the one described above are recognized will they prove useful.

Better Mousetraps

AN ELECTRIC shaver that retails for under $10 . . . an automatic livestock feeder which also calls animals in at feeding time . . . a thermometer which enables the housewife to read the temperature inside her freezer without opening the door . . . a special collar that will keep your pet flea-free . . . an automobile sun visor that doubles as a map-holder . . . a knife specially designed to cut frozen food packages . . . canned tripe . . . carpets that glow in the dark for kids who are afraid of the dark . . . a telephone answering device that records grocery or drugstore orders while the shop is closed . . . a do-it-yourself helicopter kit . . . refrigerators that hang from walls . . . and, finally, Hollywood technicians have come up with a gadget that answers every uninspired producer's prayer: an electronic laughter machine. Six control levers, we are told, can produce anything from a "tiny titter to a crescendo of howls." It's as simple as that.

With so much recent emphasis on spending "for the sake of prosperity," it comes as something of a shock to be reminded that savings, too, are necessary to a balanced economy

WHAT'S THIS ABOUT SAVINGS?

by Henry W. Steinhaus

ANY ATTEMPT to establish the relationship between savings and a "balanced economy" almost inevitably raises a dilemma very much like the one in that story about the chicken and the egg. Which comes first? For, while it is undoubtedly true that a "balanced economy" creates conditions which encourage savings, it is equally true that savings, in turn, provide the means to keep the growing economy in balance. Unfortunately, in our complicated society the interrelations between savings, investment and consumption are blurred by the multiplicity of economic operations which take place simultaneously. Therefore, it is difficult to find a direct explanation of the role of savings in the miracle of practically full employment without inflation—which is what many people mean when they speak of a balanced economy.

It is only in times of economic distress or war mobilization, when individual and business decisions are regimented by a national emergency, that these economic processes become easier to trace. What happened to the savings structure in this country during World War II provides a convenient illustration.

The demands of a war economy required allocation of a large part of our national resources and labor to the production of war material. Because war production created income without a corresponding increase in the amount of goods available for public consumption (tanks, guns and planes cannot be consumed in the usual sense of the word), the war period tended to increase the total amount of spendable funds. In order to prevent swollen incomes from bidding up the prices of a limited number of goods, the Government instituted a system of rationing and of price controls. With plenty of money to spend, but few goods to spend it on, Americans saved, involuntarily, some 120 billion dollars during the four years, 1942-45, inclusive.

Let us see what type of savings made up these 120 billion dollars. Since it is very difficult to grasp

fully the significance of billions of dollars, for the purposes of a more rational illustration we can average out the national figures among the 45 million families of a decade ago. When we do this, we find that on the average a family managed to save as much as 25 percent of its income, or the equivalent of one year's income during the four war years. The average annual savings came to $667. A breakdown of this figure shows that, first, cash holdings increased by $78, and balances in checking accounts by another $83. Although money in this form is not generally considered to be savings because it is not held for an appreciable length of time, nevertheless, these funds are withheld from immediate consumption with the notion of making them available for later use. Thus they are savings.

NEXT, our family added $111 to savings bank accounts or time deposits. Government bond purchases amounted to $272. Some $14 were added to holdings in savings and loan shares, and $89 in insurance or pension reserves. And finally, our average family managed to halve its consumer indebtedness by $20.

Why money going out in payment of a debt should be considered savings requires, perhaps, a few words of explanation. Presumably, we go into debt because we do not have the ready money, or because we prefer not to touch savings. Since repayment from future income implies that the possibility of future savings is reduced by just that much, indebtedness must be shown as an offset to savings. Conversely, a reduction in indebtedness must be shown as in increase in savings. If this were not done, it would be possible to take a loan from a bank and deposit the proceeds in a savings account, thus showing an increase in savings without a corresponding reduction in future income or assets. This would be a very nice arrangement, but it just doesn't work that way.

At any rate, if we add up the figures itemized above, we find that they will total $667 which the average family saved during the years between 1942 and 1945. Properly multiplied by 45 million families, and then multiplied again by the four years in question, we are back to the 120 billion dollars which we were so careful to avoid three paragraphs ago. The interesting thing about these 120 billion dollars saved by American families is that they were saved while the Federal Government was financing its war costs by increasing its own debt.

Henry W. Steinhaus is research assistant with The Equitable Life Assurance Society of New York.

Thus the 120 billion dollar rise in savings was actually made possible by a 200 billion dollar increase in Government indebtedness. Theoretically, it might have been possible to tax away all excess sums and thereby obviate a corresponding rise in the Federal debt. But we chose the middle road and came out of the war with both a higher national debt *and* higher personal savings.

Regardless of the real or fancied sources from which these savings sprang, their economic effects, as well as the effects of a well-entrenched savings habit, were to prove astounding. Although not exactly measurable, the postwar trend in the savings pattern from 1946 to 1953 is so striking that we can draw some conclusions.

In the first place, there was little change in our cash or liquid savings structure, for while cash and bank deposits rose by some 10 billion dollars, the number of families rose proportionately. There was little per capita change. The same holds true for Government bond holdings.

ON THE OTHER hand, private insurance reserves (including insured pension funds) continued to grow by some 33 billion dollars and represented the most common form of contractual savings. To this sum should be added increases of 12 billion dollars in Government insurance reserves, such as Civil Service and Railroad Retirement funds.

Major increases also ocurred in the accumulation of time and savings deposits, and in shares of savings and loan associations, totaling in all 35.5 billion dollars. Having satisfied their primary preference for liquid savings, postwar savers shifted their investments to stocks and bonds to an increasing degree, adding 16 billion dollars since the end of the war. In addition, considerable attention was given to the purchase of homes. Since the end of the war, individuals have acquired homes to the tune of 76.4 billion dollars, for which they have incurred mortgage liabilities of 42.7 billions, thus leaving net savings of almost 34 billion dollars. Altogether, these postwar savings total some 150 billion dollars, from which we should subtract the 20 billion dollar increase in consumer indebtedness. Thus, net postwar savings come to about 130 billions.

If we are impressed by the enormity of 130 billion dollars, having met these billions head-on this time, we shall be positively astounded by the income figures from which these savings were derived. During the years between 1945 and 1953, American families had at their disposal a personal income of one trillion

615 billion dollars. Some simple arithmetic (after we have eliminated a bunch of zeros) leads us to the conclusion that American families thus saved an average of 8 percent of their disposable income. And indications are that they have continued to maintain that pace. If this figure does not come up to the 25 percent saved during the war years, it should be remembered that such a high rate of savings would act as a depressive in normal, nonwar periods.

How have these considerable savings benefited the family and the economy? As far as the family is concerned, savings represent a backlog of purchasing power and a measure of economic security which inspires confidence in the nation's economic prospects. There was a time when the specter of unemployment and recession would cause people to reduce their spending on consumer goods, and this in turn would slow production, increase unemployment and aggravate the deflationary problems of the period. Nowadays, with considerable savings and unemployment payments to fall back on, and with assurances of Governmental intervention in case of prolonged recession, there seems to be less public anxiety. Spending is kept at an even keel.

Moreover, there is a greater assurance of safety of savings and capital through Federal deposit insurance and Securities and Exchange Commission controls; and there is assurance of long-term security through Federal and private pensions. This has contributed to confidence in long-range investments. Finally, and even more important, a wider distribution of income has been followed by wider distribution of assets derived from savings. There were 46 million spending units in 1946; 55 million in 1954. The middle-income group, earning from $3,000 to $7,500 annually, increased in number from 12.5 to 28.5 million (more than half the number of total spending units), with current average liquid assets of nearly $3,000.

AS FAR AS the national economy is concerned, savings provide the resources with which we can maintain and improve our physical plant. In a free economy, this can be done only by voluntary savings. To the extent that savings are held in currency or invested nonproductively (as, for example, in the purchase of Federal bonds held by the banks), consumption is promptly reduced. The Federal Reserve Board can, and does, offset such reductions through its monetary and credit policies. To the extent that savings are invested productively, however, purchasing power is not reduced. It is only transferred. For example,

savers financed an increase of 16 billion dollars worth of local and state indebtedness during the period from 1946 to 1953 for the construction of schools and roads. Even more important, corporations were able to draw on individual and institutional savings to finance a 110 billion dollar plant expansion program. Such expansion absorbs our growing labor force, stimulates productivity and sparks higher incomes.

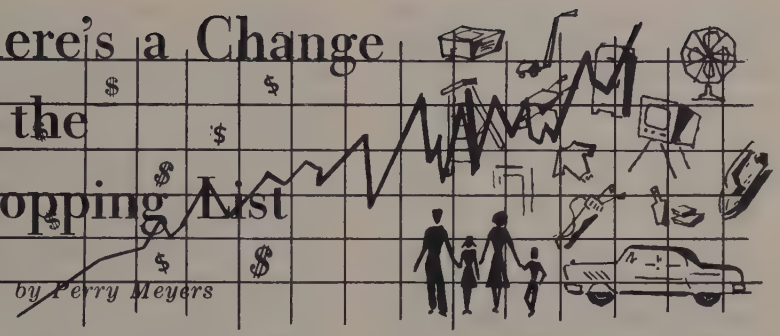
This picture of the growth of savings and its impact upon the economy has been necessarily painted in bold strokes. A more detailed analysis would, unfortunately, require the use of some rather dubious statistics. It takes the courage of an expert like Irwin Friend to write a book on savings while admitting the inadequacy of available data. Yet, remarkable progress has been made and is still being made, and more light will be shed on these intricate processes as time goes by. In the meantime, Government should exercise great care not to disturb natural economic operations by interference based upon only partial knowledge.

It does not take a professional psychologist to convince us that people save not because there is an urge to form investment capital, but because they want security and a higher standard of living for themselves and for their children. This desire is, of course, stimulated by the prospect of reasonable rewards, usually in the form of interest. When some savings banks recently raised interest rates by as little as one-half of one percent, a stream of small savers arrived at the doors of savings banks, confounding those who had belittled the effect of such small interest variations.

A BALANCED ECONOMY requires a workable division of income between spending and savings, a 93 to 7 percent ratio being the current recommendation of the Council of Economic Advisers. During the past year, the actions of the Federal Reserve Board and the Administration revealed a great reliance on the stimulus of easy money and lower rates of interest. If the ratio of spending to savings recommended by the Council of Economic Advisers is to be maintained, a balance will have to be struck between the artificial creation of cheap money through the banking system and the maintenance of incentives for savings. A continued reliance on the stimulus of easy money at lower rates of interest will certainly affect the volume of savings unfavorably.

The lesson in precaution is this: if we put all our faith in money creation, it is more than likely that we shall sacrifice the chicken as well as the egg. ■

There's a Change in the Shopping List



by Perry Meyers

Income leveling has created a mass of middle-income consumers —unfettered by social tradition and demanding a new type of luxury in comfort, convenience and individuality

BUSINESSMEN AND ECONOMISTS have always paid lip service to the importance of the consumer. Yet, until recently, little real study has been devoted to the actual patterns of consumption. An underlying assumption of most economic and business thinking has been that there are fixed and unchanging attitudes which lead the consumer to spend so much of his income for this type of goods, and so much for that type.

The new American market has challenged this assumption in many directions. For example, the consumer has increased the proportion of his income which he spends for food, whereas classical economists would have anticipated a lower percentage—on the basis of the more than 50 percent increase in per capita real purchasing power since 1939. New households are being formed at a rate one-third less than during the immediate postwar period, while the demand for housing continues to grow. Aggregate dollar income is one-third larger than in 1948; but dollar purchases of apparel are actually less; home furnishings and appliance sales are up only by one-tenth; while automobile sales are two-thirds higher.

There are very few who can claim a high batting average in predicting these consumer developments. To a great extent they upset many time-honored assumptions, such as demand varying with income, or a lower price increasing sales. Certainly, under some conditions, these assump-

Perry Meyers heads his own consumer research firm, and writes from considerable experience in consumer economics and retail merchandising.

tions still apply. Very often, however, in the postwar period they have not applied. To predict what will happen, or, even more important, to sell and satisfy the consumer requires a re-evaluation of traditional and often implicit ideas.

Such a re-evaluation would have to take into account, among other things, the "revolutionary" changes in the distribution of purchasing power. The American buying public in the pre-World War II era could best be described as two fairly distinct markets: a "class" market and a "mass" market. In 1929, according to recent estimates, about five percent of all family units had annual net incomes of more than $7,500, in terms of today's purchasing power. This small group, however, received almost 30 percent of total cash income. Next, there was a group of about 15 percent of all family units with incomes between $4,000 and $7,500 in today's dollars. These two groups constituted the heart of the "class" market in 1929, plus its middle-income fringe. While they represented only 20 percent of all family units, they received about 54 percent of the total disposable cash income. That left a "mass" market of the 80 percent of family units with incomes below $4,000, who received only 46 percent of all total disposable cash income.

All of this has been changed during the war and postwar periods. Practically all of the great gains in per capita purchasing power have gone to the families at the middle or bottom of the income pyramid. Many, many families have been able to push up to join the middle-income group. Today there are about eighteen million families and single individuals with cash incomes, after taxes, of between $4,000 and $7,500 per year. This group, which comprises about 35 percent of all family units, receives 42 percent of all income.

IN ADDITION, there are three million family units with incomes between $7,500 and $10,000. These, together with the eighteen million family units in the $4,000 to $7,500 bracket, make up a vast middle-income market. Thus, instead of the old distinction between the "class" and the "mass" market, there is now, to a surprising extent, a single, middle-income market. The heart of this market lies in the $4,000 to $7,500 income group.

Coinciding with this drastic change in the income structure of the consumer market has been an equally radical change of attitudes.

Under the conditions that prevailed prior to World War II, the demands of the 80 percent of fam-

ily units that made up the "mass" market were controlled quite rigidly by limited purchasing power. A large part of their income had to be spent for necessities—food, clothing and shelter. There were great, unsaturated demands for things such as automobiles, refrigerators and washing machines. However, during the 1920s and 1930s, the rate at which these demands could be satisfied simply depended on the amount of money left over after paying for the necessities. The desires of the mass market were quite definite; income was the main variable.

IN THE prewar period the "class" market represented much, if not all, the effective demand for many types of goods. While this group was not restricted by purchasing power, its tastes were controlled to a large degree by traditional patterns, by the compulsion to follow the local social leaders. The standards of "conspicuous consumption," in Veblen's phrase, or of "keeping up with the Joneses," established the pattern of spending. In each class of goods, there were elaborations or fine gradations of quality, which quite clearly indicated to the discriminating eye what price had been paid. Any increase of income could be absorbed simply by buying more expensive grades of furniture, clothing, housing, recreation, etc. Each class of goods could absorb a fairly fixed proportion of any extra available dollars.

Undoubtedly, these patterns of "conspicuous consumption" still dominate the spending habits of a great many people and have some importance with all of us. However, their influence is surprisingly less than it was fifteen years ago. Perhaps the best evidence of the change is the humble pair of blue jeans that has become the leisure uniform of Americans of all ages and incomes. A more general name for the change is what the magazine writers and retailers describe as "casual living."

The important point, however, is that today we are dealing with a consumer market which differs not only in income and the distribution of income, but also in basic attitudes from any market which has ever existed before at any time or place. The 50 percent gain in per capita real purchasing power since prewar days has provided a great measure of the basic necessities, plus such new necessities as automobiles, refrigerators, washers and television sets. And to a greater degree than ever before, the guides to consumption afforded by social convention, or the principle of "conspicuous consumption" have lost their power. We have a market in which more and more people have room for choice and they also have greater

freedom in making their choices according to individual attitudes.

WHAT are these individual attitudes of the consumer?

Buying behavior in recent years suggests a number of general trends in consumer psychology:

First and probably foremost is the demand for *convenience*, the desire to hold to a minimum unnecessary labor and drudgery. This demand can be seen operating in every field, from automobiles and appliances to housing, food and apparel—and even in the average woman's shopping habits. It has furthered the sales of automatic washers; of food freezers to keep large assortments immediately on hand; prepared baby foods; frozen foods of every description; precooked or ready-mixed foods; simple, easy-to-wash apparel that can survive the automatic washer and dryer and preferably needs little ironing; easy-to-maintain furniture.

A close second is the demand for *comfort*. Consumers value their ease as much as their time. Clothing must be adapted to climate and has to be easy to wear. The growth of casual clothing and children's-wear line is a dramatic illustration of this demand for comfort. Air conditioning and heating, home design and the automobile all show the operation of this basic interest.

Next, there is the demand for *color, variety* and *individuality*. As clothing, home furnishings and even the serving of meals have been simplified, a greater demand arises for color and novelty, either within the basically simple framework or through accessories. The more the economics of mass production standardize housing and appliances, the more demand there is for some degree of individuality. Greater, too, becomes the interest in personal attractiveness or even glamour. We can trace many of the striking developments in consumer tastes by watching the booming circulation of home magazines and cookbooks as well as the huge amount of do-it-yourself work about the house and garden.

ANOTHER basic trend is the interest in *active recreation* and *participation* rather than passive entertainment. The growth of active sports, particularly hunting and fishing, and the relatively slight increases in the receipts of spectator amusements, such as movies and baseball, can be ascribed to this trend quite as much as to the effects of the move to the suburbs and television.

The last factor in this new consumer market is its greater literacy, not only in terms of education, but also in terms of taste and consumer experience. Con-

sumer surveys reveal the surprising amount of knowledge and good sense that the average housewife has to guide her buying. At the same time, the consumer becomes ever harder to regiment in terms of social tradition, style promotion or snob appeal.

To a considerable degree, the new structure and psychology of the consumer market has changed the dynamics of demand. This can be seen most clearly in terms of prices. In the 1920s and 1930s, the existence of a huge, unsaturated "mass" market exerted a great pressure to reduce unit costs. Today, in many cases, the opposite holds true. There are, of course, instances where prices are too high—color television at $800 to $1,000 a set is a good example. But in dealing with substantially saturated markets, as in the case of automobiles and many appliances, aggregate demand often may be increased by building up the average unit price.

THE NEW middle-income market wants and can afford more services from the goods it buys.

In some cases, this demand for more services may operate by creating extra sales through secondary uses: the small, portable television models; or the portable or clock radios. Even in automobiles, specialized markets such as for sports cars or for a second family car may become important in the not too distant future.

IN ALL these cases, whether in building up the functions of a standard model or in developing secondary uses usually for smaller, less expensive models, product development has to play the main role in creating greater demand. The accelerating pace of technology must be matched by a corresponding sensitivity to consumer needs and tastes.

It is important to recognize the distinction between the present demand for greater services and the demand for quality or luxury as such. The decline of the older "class" market has generally operated against the products which have relied too heavily on the snobbish type of luxury appeal. Quite the opposite is the case of all the small luxuries, such as men's sports shirts, costume jewelry and personal and home accessories of all types.

The economic and social leveling which has marked the American scene during the past fifteen years has vastly compounded the element of uncertainty and unpredictability in the demands of the consumer market. There can be nothing traditional about the techniques of those who research, develop, produce and merchandise the goods and services meant for today's consuming public. ■

Man and the Economy • Number I

Evolution of a System

From lone-wolf "survival" tactics to an economy of interdependence

IN THIS FIRST of a series of essays on "Man and the Economy," it might be well to review the steps by which human beings came to establish economic relations on a more or less systematic basis. For, to talk about an economy is to talk about an economic system. Without a system, the economist would have nothing to write about. Even worse, no one else would have the time to write about anything because we would all be living from hand to mouth in a precarious endeavor to scrape together the most basic necessities of life.

Let us for a moment imagine what would happen if some natural or man-made catastrophe should destroy the very structure of society as we now know it. Suppose an actor, a writer, a machinist or a soldier should find it impossible to make a living by working at his trade or profession. Suppose we should all suddenly find ourselves in a situation where society was so stripped of all its possessions that every man had to be on his own to survive. Who but the individuals eking a living from the soil or hunting in the hills or fishing in the streams could continue to live under such circumstances? That is where man began before there was a system. That is where we must begin if we want to trace the steps by which we acquired a system.

Pre-literary history is not an exact science. We cannot, for example, say who discovered fire and precisely when or where it happened. But we do know what the significance of the discovery was, because we can see the results of that great event. Therefore, in going back thousands of years to

a time when man supported himself by hunting, fishing and gathering wild berries, we do not have to fix a precise date after which man learned to control his supply of food. It is enough to say that there was a time when man was at the mercy of natural circumstances and in bondage to his environment. Faced with the constant threat of starvation, man's primary economic pursuit was to survive from day to day. Any notion of providing for the future was quite premature.

It was only when man learned to augment his insecure food supply by domesticating animals and cultivating edible grasses, roots and trees that he was partially able to control the availability of a prime necessity. By becoming just that little more the master of his destiny, man found that he could produce, at times, more than he consumed. This was the first essential in the development of an economic system.

An interesting sidelight to the emergence of this first essential can be found in the discovery of three economic techniques which are in general use today. First, man learned that the crop must not be consumed as soon as it was reaped, for the grains must be conserved to last until the next harvest. In addition, a portion of every crop must be set aside for seed. Thirdly, man also learned that either he must return to the soil the nutrients he took from it, or that he must find new lands to cultivate as the old became worn. These are relatively simple concepts, but they are to be found not only on the land today, but also in the operation of any business or financial enterprise. Such complex things as budgetary control, provision for depreciation and amortization, and the accumulation of working capital as well as of reserve funds all go back to these simple lessons learned thousands of years ago.

HAVING ARRIVED at an economic situation where a surplus of food could *sometimes* be produced, it remained for a combination of favorable circumstances and of advancing techniques to develop societies wherein such food surpluses could be *consistently* produced. This made possible the development of the second essential of an economic system. Surplus production was to be accompanied by specialization, for now it was possible to support individuals who were not producing their own food. Some men turned to the task of digging out a canoe; others to sharpening and polishing the crude implements of the day. The wheel and the plough, products of the specialist's skill, allowed cultivation on an unprecedented scale.

When human beings reached the stage in their economic development where they could produce more than just enough to feed, clothe and shelter themselves, then the circulation of goods within and between groups could take place. Communities with a local surplus product frequently exchanged portions of it for the surplus of other communities. Whether the exchange took place among individuals or between tribes in the same locality, or between peoples separated by considerable distances makes little difference. Whether it was a simple matter of barter or of organized trade also makes little difference. The concept of circulating and exchanging goods not needed to sustain life at home is the same today as it was long before the first kingdoms in the Nile Valley were founded.

Thus, after thousands and thousands of years of struggle and of trial and error, human beings arrived at a point where their economic activity can be said to have been carried out within the framework of an economic system. Once the general necessity of every man seeking his own survival was removed, and once the diversification and specialization of skills had become possible, the essential forces of interaction and of interdependence—two words which are a vital part of any definition of a system—emerged.

ALL THIS HAPPENED thousands of years ago—and long before man had even learned to write his history. There have been many additions to the economic scene during the past 5,000 years—money, banking, machinery, factories, wage negotiations, pensions, etc. —but these are the trappings with which we have decorated the basic essentials of a system already in being. We have ever since been struggling to find the best way to make the system yield the best results according to our own notion of what we want. There have been and indeed still are vast differences of opinion as to the methods which should be employed to make that system work to our advantage. These differences in opinion as to *methodology* and *objectives* raise the economic issues between capitalism and communism.

But there is a great deal more to be said before we reach the story of conflicting economic ideologies. In succeeding essays we shall continue to present in broad outline the forces which have shaped "Man and the Economy." ■

NEXT MONTH: Expansion of the economic system is concurrent with the development of social and political institutions.

The rapid growth of a new-type retailer will have broad influence on the merchandising techniques serving tomorrow's consumer

Don't Discount The Discount House

by Robert G. Axtell

There was a time when the retail customer had to search for a way to "buy it wholesale." Today, discount houses advertise and sell a wide variety of merchandise at wholesale prices right on Main Street.

The United States Chamber of Commerce has reported that twenty-five billion dollars each year—18 percent of all retail sales—are rung up in the cash registers of undisguised discount houses. In addition, the Chamber believes that perhaps another twenty-five billion dollars are accounted for by more or less concealed discount operations, conducted informally by regular dealers or wholesalers.

Most of this fifty billion dollars in volume consists of sales of brand-name items, and often of Fair-Traded ones as well. Fair Trade prices for widely advertised brands actually help the discount houses; they not only facilitate comparison of merchandise in competing stores, but also ease the customer's computation of his "saving." They offer a ready-made sales argument that no discount house neglects. In fact, discounters will confess, privately, that they strongly favor the continuation of Fair Trade. They are battling only its enforcement. They admit that without knowledge of manufacturers' list or Fair Trade prices, their customers would be more susceptible to the appeals of local dealers or established department stores. These appeals (reliable and prompt service on appliances, the privilege of returning merchandise with no questions asked, broad knowledge of competitive products, the use of a charge account and free delivery) have long been potent attractions against which the discounter can only offer "unbeatable" prices.

One of the major objectives of price maintenance under Fair Trade has been to encourage re-

Robert G. Axtell is a specialist in the study and solution of retailing problems with McKinsey & Company, management consultants.

tailers to compete by offering just such nonprice services as these. However, the effect has often been to focus attention on prices. In New York, buyers shuttle back and forth between Korvette and Master's Mart, two of the largest discount houses, to compare discounts. Pittsburgh's department stores discovered that some 65 discount houses were openly inviting consumers to place a value on the services that the department stores offered and to see whether it did not pay to buy at a cut price. In New Orleans, any dealer of branded items who has accepted Fair Trade pricing is resigned to customers who examine his merchandise, copy the model number, buy it at Schwegmann's discount house—and then return to him to find out how to use it!

Retailers' reactions have varied. Some vigorously urge manufacturers to seek injunctions against discounters under the Miller-Tydings and McGuire Acts—the Federal laws upholding Fair Trade. Others are adopting a counter-program of discounting, either directly or in the form of increased trade-in allowances. Some dealers have discontinued or buried under the counter brands that are being "bootlegged." Consequently, many retailers today are taking a more analytical view of the discount house problem. They are beginning to apply measures that may well result in far-reaching changes in their own methods of doing business.

FIRST, there is a growing trend toward examining the individual costs of retail operations on a specific dollar rather than an overall percentage basis. Just what is the actual cost of stocking and selling an expensive watch, for instance, compared with a box of stationery? And what is the rate of return on investment in each case? Few storeowners or executives can answer these questions accurately because traditional operating methods have led them to think of their markup in terms of percentages rather than of dollars. Further, they tend to look at profit in terms of its ratio to sales, not to investment. Consequently, these two widely varied types of merchandise — watches and stationery—have been priced by most department stores to yield approximately the same percentage margin. Overlooked is the fact that a smaller markup per unit coupled with increased sales of a particular item could net a much larger profit in dollars.

Such thinking provides an open sesame to the discounter who sees that by reducing the price of a nationally advertised watch he can widen his market and increase his sales volume with no increase in selling costs. As a result, he

often nets a higher dollar profit than his conventional competitor. After all, he pays his expenses in dollars, not percentages.

Secondly, conventional retailers are re-examining their services and eliminating those that seem unnecessary. If they can cut their costs sufficiently, they can more nearly meet discount prices. They feel that the rise of the supermarket as well as the discount house has demonstrated that many consumers are willing to dispense with extra services to save money.

Thirdly, major factors in the retail world are increasingly inclined to promote their own private brands in order to compete on a price basis with discounters. Macy's and other large department store organizations have gone far on this road, which Sears Roebuck & Co. was among the first to exploit. These stores find that they can make effective use of their mass-buying power (an asset few discount houses possess) to place contracts for virtually identical copies of Fair-Traded merchandise at lower unit costs. Then the private brand can be priced at the usual percentage markup and still offer salesmen a strong selling argument: "This washer is exactly the same as that one," he may say, "but it will cost you $50 less because it carries our own name and doesn't have to pay for national advertising." Such an appeal is much like that of the discount house.

But perhaps the development that will prove to have the greatest significance to consumers, retailers and manufacturers alike is the renewed interest in the many potential economies in distribution. With half of the retail sales dollar now spent to move goods from manufacturers' to consumers' shelves, there is increasing evidence that a detailed study of distribution costs may yield major results. Savings in this area can benefit our entire economy.

In the past, department and chain stores insisted on buying directly from manufacturers and thereby virtually eliminated the function and the cost of the general merchandise wholesaler. The mail order chains were among the first to carry this process a step further by integrating manufacturing with retailing wherever real economies could be achieved. Some manufacturers, such as oil and rubber companies, sewing machine producers and clothing firms have moved in a similar fashion by establishing their own retail outlets. Successful efforts of food and variety chains to reduce distribution costs have been responsible for much of their growth.

DISCOUNTERS have demonstrated to the conventional retailer that

it is possible to operate profitably with little inventory, for they frequently sell advertised brands from samples or catalogs. Furthermore, discounters often eliminate much of the duplication in bookkeeping and warranty records involved in the sale of major appliances by transferring these functions wholly to manufacturers' representatives or factory distributors. As one discount house salesman said, "We have no responsibility and no inventory, so we can make good money by charging ten dollars above our own cost for writing the sales check on a washing machine—provided our competition maintains the list price and lets us have the volume."

Consequently, other retailers are now insisting on working more closely with manufacturers than they have in the past. For example, many stores today are asking their suppliers to ticket merchandise at the factory, to ship it in such a way that it can immediately be placed on display—without ironing garments, for example—or to ship it directly to the purchaser. Self-service and self-selection techniques are being introduced on the selling floor wherever feasible, so that the customer may be allowed to assume some of the duties of salespeople and receive compensation in the form of reduced prices.

WHAT will be the results of these trends? Of course, any prophecy of the future in a field as dynamic as retailing is little more than an educated guess. However, if the major trends outlined above continue to develop, many experts expect to see a general reduction in retail prices and margins, accompanied by a more than compensating increase in volume. They believe that as conventional stores become more nearly competitive in price, the position of the discounter will weaken. In short, many retail executives expect the discount house eventually to join the ranks of their more "respectable" competitors. In the meantime, there is solid evidence that discount houses are causing conventional retailers to reappraise time-honored policies, which may well result in the most important changes in retailing methods since the introduction of the chain store idea. ■

A PENNY SAVED IS MORE THAN a penny earned at Rutland, Vermont. A local bank pays $1.05 for 100 of them. It costs less to pay the depositors a bonus than to pay the shipping charges on the pennies it would otherwise have to purchase.

Sometimes even the Russian people are discouraged by the inefficiencies of Communist enterprise—such as the ruination of a famous mushroom delicacy

The Soviets Go the Way of All *Ryzhik*

by Albert Parry

HAVE YOU EVER heard of *orange-agaric, cantharellus,* or *cibarius?* All three are synonyms for a certain delicious mushroom. In Russian it is *ryzhik.* Befor the Soviet era, ryzhik was an ambrosian delicacy, especially if it came from Vyatka (now called Kirov) in northeastern European Russia.

"What a mushroom that was!" an old Vyatka native is quoted in *Pravda* for August 29 of last year. "No words can describe it. Our ryzhik was known even abroad. In gathering it the littlest ones were preferred, and they were put up in jars according to an old recipe. We used to open a jar, take a sniff, and ask ourselves: 'Where art thou—on earth or in heaven?' And now . . ."

Now, sighs the nostalgic oldster (and *Pravda* sadly concurs), the celebrated Vyatka mushroom still abounds, but it is "humiliated" and "it personality made faceless" by the extremely poor processing introduced under the Soviets. "Is this our wonderful ryzhik?" laments the man. "Sheer mockery, that's what it is. They are rude to our lovely mushroom!"

No comment is made in *Pravda* although a smart Russian reader can perhaps draw certain damaging conclusions, no matter what other intent may lie behind such rare official Soviet remembrance of the good old pre-revolutionary

times and their efficient ways.

More often the sloppy, shoddy features of Soviet production and commerce are denounced by official Moscow writers with no reference to the pre-Soviet years and their better record. Soviet inefficiency and poor craftsmanship are usually ascribed to someone's personal ignorance or malice. On the infrequent occasion when the Red press adds that in the days of the tsars or Kerensky the standard of manufacture or service was higher, you can almost bet that someone in the Red censor's office has slipped and will surely pay for it.

Even while Stalin lived and terror was harsher, we could deduce from the Soviet press that the Russian consumer did prefer certain things which, though Soviet-made, still reminded him of the good old non-Red era. There was, for instance, the intermittent complaint by Stalin's trained seals of the typewriter that Soviet stage directors produced far more classical plays, both Russian and foreign, than Red propaganda dramas. The implied cause was that Soviet playgoers liked non-Soviet plays and shunned Soviet concoctions. Ditto in music. Records by non-Red composers were in greater demand that discs with Soviet tunes.

Since Stalin's death, such angry complaints in the press have changed into admissions that the customer is right after all—in nonintellectual wares as well as in plays and music. The Red journals may now be yielding reluctantly (without perhaps even noticing this) to the popular pressure and reflecting life against their own and their censors' will.

In Kazan on the Volga there were fifteen hotels in 1913, recalled *Literaturnaya Gazeta* on September 26, 1953, but "now there are only three hotels, and 30 percent of their rooms are occupied by permanent tenants, and during conventions and conferences additional persons are put onto the sofas of the already crowded rooms." No outright mention was made in the article that those fifteen hotels in 1913 were owned and run by private enterprise. Still, a general moral could be derived that in tsarist times some things were done in a more efficient manner.

A YET RARER, bolder tribute, specifically to the oldtime private enterprise, cropped up in *Literaturnaya Gazeta* on October 1, 1953, in an article from Krasnodar in the Northern Caucasus. A state plant making bricks and rooftiles was criticized for the scant quantity and low quality of

Albert Parry is Professor of Russian Civilization and Language, and Chairman, Department of Russian Studies at Colgate University.

its output. Its Red manager reminisced to the Red newspaperman:

"Long ago private entrepreneurs made good rooftiles here, and in large quantities. People from elsewhere used to come here to buy local brick and tile. But by now we have somehow lost that secret of production. . . ."

Oldtime craftsmanship is gone, and customers are sad. On December 16, 1953 *Komsomolskaya Pravda* ran an article by its correspondent in Molotov (formerly Perm) complaining of the lack of skillful cabinetmakers and tailors in the northeastern city. The best of such masters are in their fifties and sixties, the last of the good craftsmen trained in tsarist times. Young Soviet replacements for them are either ill-qualified or nonexistent, mourned the Red journalist.

In such admissions there is of course an element of general human nostalgia for "the good old days," a wistful kind of hankering which we in the West, too, occasionally have. We, too, sometimes lament that the old expert knack of doing things has perished with the wind, that latter-day artisans are not as skillful or thorough or even as honest.

But in Soviet jeremiads on the theme we also find a definite, albeit furtive recognition of the fact that tsarist times, though admittedly never a model of liberality or efficiency, did have this all-important ingredient of private enterprise, with its benefits to humanity far superior to whatever is brought to men by the totalitarian type of state capitalism.

FROM time to time the Red press reports "illegal" cases of private enterprise still practiced in the Soviet Union.

One such case involved the manager of a large Soviet needle factory. He had early and ably organized the work of his plant so as to fulfill the production quota assigned to him by the state. But at the same time, with the full cooperation of all his engineers, foremen and workers, he diverted a sizable part of the state-issued raw material to produce a periodic nonquota shipment of needles for the black market at a slightly higher price than officially decreed. So scarce were needles in Soviet Russia that the higher price was no handicap to such black-market sales. The proceeds of these illegal sales were divided by the manager among his working staff, high and low.

For a number of years not a single worker, foreman, engineer or bookkeeper of the staff would inform on the manager. All were happy with their extra earnings. But then there was a slip, the Secret Police stepped in, and nearly 75 percent of the plant's staff

landed in concentration camps.

Occurring more often than divulged in Red journals, there are the cases of make-believe cooperatives—another concealed variant of private enterprise. A smart Soviet citizen files an application and receives a license for himself and his fellow artisans to make and sell shoes, clothes, furniture or some other item in popular demand. He sets himself up in business as the "chairman" of an *artel,* or cooperative, but in actuality the other "members" are his employees, some working in his shop, others laboring at home as part of a cottage industry. The group's books show a fair division of profits among "fellow cooperators." In fact, however, the others receive wages from the entrepreneur and no share of the profits. The boss collects all net profits. When an entrepreneur of this type is caught by the secret police he pays dearly—with all his property, which is promptly confiscated by the state; also with his liberty, which is forcibly exchanged for an abbreviated life in Siberia. But many are not caught, and this kind of private enterprise goes on.

The Moscow press also reports cases where employees of state stores and warehouses steal goods and sell them on the side ("left-hand side," the Russians call it), using their homes as their places of business. Some such enterprising "businessmen" have partners whose job it is to sidle up to disappointed customers in state stores and whisper the welcome information that they could buy whatever they need from "private parties." Arrests and stiff sentences do not seem to stamp out such practices either.

At Aktyubinsk, Soviet Kazakhstan (Central Asia), salesmen charge customers prices above the official list and appropriate the difference. Ditto for the sales force of the drygoods counter—in Moscow's main department store, no less! At Gorky on the Volga, drygoods salesmen do tricks with yardsticks, cheating the state for their personal enrichment. Other such tricks have recently been detected in the stores of Kransnodar.

In some cases such lawbreakers are shielded by the very police who are supposed to do the "weeding." We read in *Izvestia* of July 7, 1954 that at Orjonikidze in the Northern Caucasus "a few of the local police officers have ties with black marketeers."

NOR ARE the Communist party functionaries averse to sharing such non-Marxist profits. On October 11, 1953 *Komsomolskaya Pravda* gasped in indignation that a member of the Communist Youth League joined with his fel-

low employees of a state produce collecting office at Volsk to sell piglets, roosters and other state-owned animals and fowl for their own private profit.

Services as well as goods are being sold privately. A garage manager pockets the money received for car or truck repairs done for a collective farm. Over a two-year span an Odessa official sells, for his own profit, more than 100 *putevki* or state documents permitting Soviet individuals to spend certain periods of time in the state's homes of rest. The captain and sailors of a Lake Baikal steamer charge a special fare, again for the crew's own coffers. An engineer at a plant exacts fees for himself from local schoolboys as he takes them on educational tours of the factory.

All such ireful accounts in the Soviet press seldom admit that these "lawbreakers" serve the Russian customer more efficiently than the nationalized Soviet industry and trade can or do.

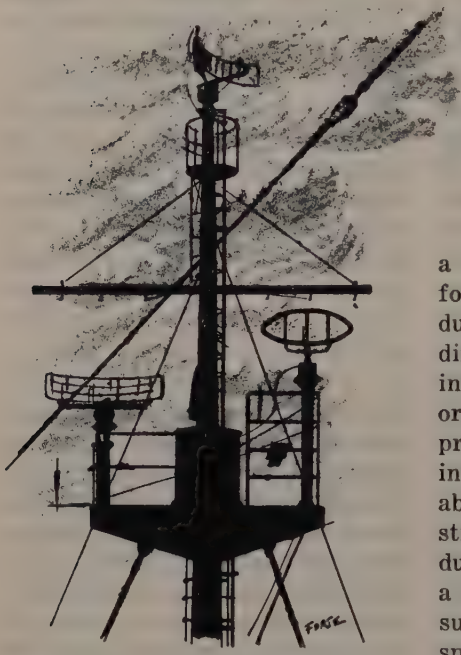
At times, however, Moscow does let out that "the secret of production" is not lost to mankind entirely—that, alas, foreign capitalists still have it."

IN A bit of crow-eating on October 17, 1953 Minister of Trade Anastas Mikoyan voiced (and the Red press duly spread) the axiom that Western business did have something to teach to the Soviets.

"Bourgeois countries have created good models of trade organization . . . cultured means of serving customers. Let us condemn those comrades who, under the pretext of fighting subservience before foreigners, ignore foreign experience. . . . We must study and adopt that which is necessary for us in servicing the customer out of the practice of the best enterprises in bourgeois lands."

BOURGEOIS countries, said Comrade Mikoyan, have created good business methods "under competitive conditions" and not because free enterprise was any good. In his speech he tried to bury foreign free enterprise, but despite himself succeeded only in praising it. The Russian consumer—recalling excellent mushrooms pickled and sold by old Russia's private tradesmen, recalling durable shoes made and sold by old Russia's private tradesmen, or buying durable shoes made and sold by "illegal" private entrepreneurs in today's Soviet Union — would hardly agree with the Red casuistry drawing a line of distinction between competition on the one hand and free entreprise on the other. ■

A tariff intended to protect a defense-related economy is not as effective a weapon for the nation as it might first appear



Whom Does A Tariff Protect?

by T. C. Schelling

WHEN President Eisenhower raised the import duty on watch movements recently, he referred to our domestic watch industry as a source of sensitive skills important to the national security of the United States. With good reason, he may have had in mind not only fuses and timing devices, but ordinary watches and clocks as well, without which wars cannot be fought and the home front is thrown into confusion.

At first glance, the tariff seems a convenient and effective device for supporting defense-related industries in peacetime. Granted the difficulty of predicting just what industries ought to be expanded or maintained and which military products might best be stockpiled in advance, a natural way to bring about expansion would be to substitute domestic for foreign production. And import duties seem a simple device for forcing such a substitution to take place. Yet, in spite of this apparent attractiveness of the tariff, and in spite of incessant demands by some industries for protection on these grounds, the tariff has been sparingly used. The watch case, far from being a typical example, is almost notable as an exception to the rule.

In fact, a majority of the Randall Commission (the Commission on Foreign Economic Policy, composed of Presidential appointees and members of Congress) last year came out against the general use of tariffs to protect potential

defense-related industries. Speaking particularly of raw materials, their report said: "Upon a finding by the Executive that it is necessary on solely military grounds to assure a strictly domestic source of supply, the Commission recommends that the purpose should be accomplished by other means, the cost of which should be borne in the defense budget."

Some of the Commission's reasons are clear enough. As one member said, the decision on such a tariff is "subject to pressures from those whose interest are directly concerned." But the reference to costs is somewhat puzzling. Why should there be an actual preference for costly subsidies and direct grants to industry when the tariff can accomplish the same purpose without enlarging the budget and raising the tax burden?

In times of large-scale Government buying there is something attractive about a device as impersonal as a tariff. The Government does not have to discriminate and negotiate and go over the cost accounts of business firms to determine that just the right things are produced and that costs or claims for reimbursement are justified. Instead, a single law provides clear-cut protection for all producers, large or small, old or new. The bureaucracy is confined to enforcing customs duties at our borders.

If, then, the tariff avoids both higher Government costs and bureaucratic intervention, why is it not more often used for stimulating defense-related industries in peacetime? And why should responsible persons propose to abstain from using it, preferring deliberately to raise the defense budget instead?

IF WE look more closely at the "costlessness" of the tariff, it turns out to be largely deceptive. When the domestic production of a potential defense industry is judged inadequate for defense needs, and low-priced imports prevent its profitable expansion, the Government could make enlarged production possible by absorbing part of the production costs. The resulting lower costs to the industry would enable it to compete successfully with imports, and to take over a larger share, or possibly the whole share, of the American market. This would cost money: the industry's reduced costs would partly be reflected in the defense budget, and hence in the size of the citizen's tax return. Alternatively, if cheaper foreign goods are excluded by high import duties, consumers of the product will be forced to pay higher prices to cover the costs of enlarged do-

T. C. Schelling is Professor of Economics at Yale University.

mestic production. This, too, costs money—not to the citizen as a taxpayer, but to the citizen as a consumer.

In one way or another, the costs of domestic production must be covered, either by higher prices to the consumer or by absorption of part of the cost by government under a program of financial assistance to defense-related industries. There is no magic that makes production costs disappear just because they are shifted. Eliminating competition does not make production less expensive; it can only make somebody pay the greater expense, by eliminating the cheaper alternative.

SINCE the tariff places the cost on the consumer rather than in the national budget, we might say that the tariff has the effect of a "tax." Notice that this "tax" is not the import duty itself. The import duty is a real tax on any foreign goods that still do come in, and it yields revenue to the Treasury. The "tax" that finances the domestic producers is the price increase on goods produced in this country under tariff protection; it yields no net revenue to the Treasury, since the proceeds go to defray the difference in production costs.

Discovering that the "cost is still there" does not, however, discredit the tariff. It only removes an apparent argument in its favor. But there is another closely related argument against using the tariff for this purpose — namely, that the tariff technique bypasses the budgetary and tax processes.

The consumer has a right to expect that his government will be just as careful when it spends his consumption dollar for him as when it spends his tax dollar. The tax dollar that is used for defense goes through a fairly elaborate screening process before it is spent. First, the Army, Navy or Air Force makes plans, computes costs, compares alternatives and submits a budget. The budget staff of the Defense Department reviews the estimates and the expenditure justifications. Then the U. S. Bureau of the Budget does the same thing, weighing the expenditures against other parts of the Budget and the tax program. Then the spending plan goes to Congress, where it is subject to rigorous re-examination both in committees and on the floor. Once the funds are voted, they channel back through many of these same processes, with numerous rechecks and controls. Thus, a considerable effort is made to justify the outlays. Costs are calculated, alternatives are compared, and—most important of all—*somebody is responsible* for making the estimates and for standing up to jus-

tify them at each and every stage.

This process is bypassed by the tariff. Certainly, responsible tariff decisions can be made, but tariff procedures do not call for expenditure analysis and comparison of alternatives. "Cost" estimates are not even made, or, if made, are not argued before an appropriations committee and not published for the consumer-taxpayer to see.

It is not enough to decide that a higher production level in a particular defense-related industry would be helpful. The proper question is: "Does the consumer-taxpayer's dollar yield more national security when spent by him to cover the higher costs of domestic production, or when spent, instead, by the Navy for another submarine?" Similarly, "Would it be cheaper to contract for standby capacity, or stockpile the defense item in advance, or make provision in some other alternative way?" The answer to these questions might well favor the tariff. But under tariff procedures these are not the questions that tend to get asked.

Not only is the budget bypassed, but so are the revenue laws. If watch-making is an expensive skill to be preserved in the interest of security, why should this particular expense be paid by the buyer of a watch rather than out of income taxes, tobacco taxes or reduced benefits to the aged? Consumers are taxpayers, but people do not all buy watches in the same proportion as they pay income or liquor taxes.

What the tariff does is to decide *who* pays the tax as a by-product of *whether* to support enlarged production. It represents taxation by default, as though soldiers were required to be fed by the people who happen to live near army posts.

The impersonal, unbureaucratic nature of the tariff, in spite of some very real virtues, also has some serious drawbacks when the object is to meet security goals as economically as possible. The tariff benefits both those producers who do, and those who do not, need assistance to stay in business. The low-cost as well as the high-cost firms (and their workers and their suppliers of materials and components) equally share the benefit of higher prices. The consumer-taxpayer can hardly be expected to enjoy paying for such benefits when his original objective was to defray only those costs considered necessary by the defense mobilization authorities.

Nor can the tariff distinguish between those firms that would, and those that would not, be useful in time of war. Location, size, technique of production, use of fuels or raw materials, and many

other factors may vary from firm to firm in the same industry, ruling out many of them as potential wartime suppliers. And often the peacetime product is only a distant cousin of the military goods in question, so that tariff protection can make only a clumsy attempt at stimulating the right kind of productive capacity.

FINALLY, when the Government lets the consumer pay the cost, there is no reciprocal obligation on the part of the protected firms. If, instead, the Government should negotiate a contract with a producer, under which it agrees to assume a calculated share of the peacetime cost of operations, then the Government has an opportunity to obtain certain assurances in return. These may include retention of stand-by equipment for quick conversion in time of war, preservation of certain techniques of production or introduction of new techniques more suitable for defense production, retention of labor skills that would be needed after the changeover, and preferably some obligation—at least an explicit moral obligation—to accept defense contracts at reasonable cost in event of emergency.

Not long ago the newspapers carried an example of selective budgetary processes at work, where tariff protection would have been clumsy, indeed. The new ocean liner *United States* was launched with a number of features irrelevant to commercial travel, but essential to the liner's quick conversion and suitability for military transport use in time of war. The United States Government "bought" these features in direct negotiation. Protection from foreign competition could have made ships more profitable, but not the particular features in ships that would maximize their value to national defense.

THE alternative to tariffs as a means of peacetime expansion is usually a direct expenditure technique, with all the negotiations, controls, interferences, personal judgment and red tape that it carries. The case is certainly not conclusive on either side, and the practical advantages or disadvantages will differ from case to case. What is an important argument when ships are under discussion may be unimportant when watches, chemicals, copper or wool are at stake.

But what does seem to emerge from this reflection on the subject is a *presumption* in favor of budgetary processes and selective techniques and an understanding of why the tariff—though at first glance so suitable—is in practice so little used as an instrument to stimulate our defense-related industries. ■

If everyone concerned understands the direct relationship between greater productivity and higher wages, then labor-management negotiations would be conducted on a more realistic basis

Partnership in Progress

by Allen W. Rucker

THE DEMAND OF employees for partnership in industrial progress is something more than merely vocal; it is powered, I might say almost jet-powered, by industrial, political and monetary forces that show no signs whatever of exhaustion.

It is not very surprising, therefore, that hourly wage rates in industry have been rising, and apparently will continue to rise over the coming years. We are facing a rise of almost 40 percent in wage rates in the next five to six years; probably a 100 percent rise in the next fifteen years.

We must come to recognize the futility and wastefulness arising out of the annual arguments over wage rates. Whatever justification these yearly debates may once have had, they no longer make any sense whatever, socially, operationally or even economically.

Socially, these annual arguments tend to draw class lines and to set one group against another; they upset good human relations in industry. Operationally, they tend to slow down production, diminish productivity per man-hour, raise costs and curtail corporate earnings. Economically, they accomplish exactly nothing for either "side" at the expense of the other. Specifically, the share of production value in all United States manufacturing absorbed by wages is a near-constant 39.39 percent. The remaining share available to management for all other operating costs and profit, likewise, is a near-constant 60.61 percent.

These percentages have per-

Adapted from an address by Allen W. Rucker, president, The Eddy-Rucker-Nickels Co., before the Third International Executive Conference on the Rucker Plan at Cambridge, Ohio.

sisted for the past fifty years. They have not been changed by Republicans or Democrats, peace or war, boom or depression.

That being the case, these annual arguments ought to go by the board. Collective bargaining can be and should be elevated to a higher level, to a level where a mutually sympathetic discussion of possibilities can be undertaken on a basis of some clearcut and easily verified facts.

This can be done if management takes the initiative and develops a basic compensation policy —one that recognizes not only the futility of yearly arguments, but the equal futility of supposing that the long-term advance in employee earnings is either something merely temporary, or even worse, that the employee demand for "partnership in progress" can be denied.

We have gone far in fitting the right man or woman to the right job with aptitude and allied tests and by on-the-job training. We have certainly made great advances in job-evaluated rates, in systems of merit advancement. We have gone far enough to begin now to visualize that the next step will be the simple one of distinguishing between: (a) the function of the wage-rate in rewarding individuals according to skill, merit and output; and (b) the broader function of how to enable employees as a team to share in the progress of a business without penalizing customers and stockholders on the one hand, or depriving management of employee cooperation on the other hand.

As a means of enabling the employer to hire the different types of skill, experience and capacity which he needs, with hourly pay differentiated according to those abilities, the differential wage-rate must rank as one of the great economic inventions of civilization. As a means of enabling each worker to be paid in accord with his own abilities, the differential wage rate must also rank as one of the great social inventions of civilization.

BUT, despite all of this, the differential wage rate cannot do certain things. For instance, the toolmaker and the machinist, the truck driver and the floor sweeper may be fairly compensated relative to their skills, and relative to other skills. But none of them can know from their pay rates whether or not they are being paid in proportion to the values they help to produce for the firm. This relationship is hidden. We leave it to employees to wonder if they are receiving their fair and equitable share of what they do. When many employees have this wonder, it can and often does evolve into doubt, and suspicion—

and into concerted action among employees to redress the balance of relative wage and output values and to enlarge the employees' share.

The rising demand for "partnership in progress" cannot be stilled, let alone satisfied, until we reveal the economic and financial relationship between the productive efforts of employees and the production value which their efforts help to create. The principle to be explained is simple: total annual wages, including all fringes, tend to be a near-constant percentage of total annual production value. It does not matter what the industry may be, in what country it is located, or what language employees and owners speak. Total pay of a business is proportionate to total production value generated by the combined efforts, or teamwork, of men, management and machinery.

The great defect in today's compensation policies is that this fact is not disclosed to employees. Therein lies the heart of the matter. Once this too-long hidden relationship between pay received and production value created is determined and disclosed, any firm can easily meet the demand for "partnership in progress." And it can win for itself a new understanding and cooperation that accelerates that progress.

Were it not for an improvement of industrial productivity per man-hour averaging about 3.0 percent compounded yearly, wage-costs in the United States would long since have overhauled total business income. We would be economically bankrupt.

The great managerial problem and the great opportunity, too, is to maintain at least the average improvement in productivity, lest the excess of long-term wage increases over probable price increases wipe out all prospect for profit and hope of survival in the years ahead.

The managerial opportunity and responsibility is to take the initiative and to develop, put into practice and use continuously the compensation principle that will keep the firm competitive in the market for orders, and competitive in the labor market. For one thing is certain: business flows to those who consistently supply the wanted products, of the quality and at the price which customers will accept and buy in volume. Equally as certain is that the alert, the capable and the ambitious worker gravitates to the firm which can assure him that he will become a "partner in progress."

Men must know where they are going if they are truly to help to achieve the growth ahead for the American industrial system. ■

you may want to know...

EVEN THOUGH the Federal tax deadline for individual returns this year is April 15, you may be caught with you bankbook down. Inability to pay the amount due will cost you an interest charge of 6 percent a year. Since the interest rate is high, you might borrow the necessary money at a lower rate and pay your taxes on time. But even if you can't afford the full amount, get your return in on time, as penalties for non-filing are steep. And failure to file a return, if it is construed as willful tax evasion, might lead to prosecution on a criminal charge.

Shipshape

IF YOU'RE one of those fortunate people planning a winter cruise (and it isn't prohibitively expensive—just requires will power to postpone your vacation during the hot summer months), here are a few reminders for cruise-ship life. If your stomach is queasy, there are many new drugs which cut down seasickness. Try for a cabin in the middle of the ship. Also, since it's almost impossible to cash personal checks, traveler's checks are your best bet. The rule-of-thumb for tipping on board calls for at least one dollar per day each for your waiter and room steward. A small percentage of the tip in advance may assure good service.

A Truly Hot Tip

WHEN YOU'RE sure no one is looking, take a peek behind your radiator covers to see what color the radiators are painted. If they are gold, aluminum or a dark color, repaint them white or yellow. Metallic and dark paints reduce heat transmission. Light-color paints let heat rays through and thus increase the efficiency of your heating system.

No Double Tax Here

THE MONTHLY allotments received by a serviceman's family are not considered as in-

come to the family and therefore are not taxable. The allotment is made up of an amount deducted from the serviceman's pay plus a contribution by the Federal Government. The amount contributed by the serviceman has already been taxed as a part of his income; the part paid by the Government is a gift.

Creeping Teetotalism?

TEETOTALERS must be at a premium, because several insurance companies offer nondrinkers sharp rate reductions for automobile liability and collision insurance. Occasional social drinkers don't qualify; you must be a total abstainer. Rates start at about 25 percent below the standard. One company offers another 5 percent per year reduction for five years if you make no claim.

Degrees Pay Dividends

NORTHWESTERN UNIVERSITY finds that employment prospects for this year's crop of graduates are better and starting salaries are higher than last year. New graduates receive an average starting salary of $341 a month, $6 more than last year's figure.

An Ounce of Prevention

IF YOUR child shows signs of inattentiveness, awkward listening postures, excessive fatigue or voice peculiarities, don't rush him off to a psychiatrist. Have a doctor check his hearing instead. At least two million school-age children from five to seventeen years of age have impaired hearing. Between 50 and 60 percent of their impairments can be cured or helped if discovered early.

The Uninvited Guest

WINTER wedding bells are becoming increasingly popular. So, if someone in your family is planning a wedding, heed the warning of the insurance companies. Thieves are discerning readers of social columns and are tempted by the promise of valuable gifts concentrated in one place. There are special kinds of insurance to protect you against loss of and damage to wedding presents in the mails, through theft, through destruction by fire, or any other hazard. The insurance policy covers a specified period prior to the wedding and up to ninety days after. ■

The reluctance with which a modern citizenry pays its taxes is all the more surprising in a democracy where the people are supposed to have the right to say how much government should spend and for what

Taxes in a Democracy

by Ferdinand Lundberg

In the matter of taxes one treads on sensitive ground. Since government began, apparently, men have resented paying taxes—to a lord, a king, a tyrant. But since governments regarded as democratic came into being, this ground for resentment has been swept away. Taxes today, in the governments known as democracies at least, go *for the most part* into activities *conceived to be* in the common welfare.

"For the most part" is written because no doubt some of the money collected in taxes is lost in the sort of inefficiency and dishonesty peculiar not to government in general, or to republican government in particular, but to human society and culture in general; and some of it represents expenditure in a mistaken conception of public interest. But all government expenditure in the parliamentary nations is made at least in the name of the common welfare, even though much of it reflects in fact the self-serving influence of small minorities.

Nevertheless, resistance is still very strong—stronger than ever, in fact—to the enactment, collection and payment of taxes.

This statement is ventured in the face of several apparently adverse facts. The first is that taxes today in the United States, not excepting those at the height of World War II, are greater than ever before, which might indicate on the surface that we are as a people very much in favor of supplying our government with necessary revenues. And while there is much objection to the present size of taxes, none of the objection is effective and the government continues to collect huge sums every year. The objection, it might therefore be argued, is not really serious.

There are additional broad facts, however, that explain the apparent contradiction between present heavy taxes and the contention that they are reluctantly accepted. These facts indicate strongly that our citizenry supplies its government with revenues only unwillingly, indirectly and under the coercion of dire

contingencies. The facts are as follows:

1. American taxes have risen from virtually nothing prior to 1914 to their present huge proportions invariably under the stimulus of apocalyptic emergencies; they have seldom been foresightedly and willingly imposed upon themselves by the people to produce social improvements, except possibly in the case of paved roads after the introduction of the automobile. There has, it is true, been taxation for the school system, but when we come to look at the expenditure for this purpose we see that it is really a pitifully restricted sum in comparison with expenditures for some of the grosser popular appetites. The apocalyptic events that produced the present tax structure were World War I, the Great Depression of the 1930s, World War II and the ominous Soviet aggressions and intrigues following World War II. Only under the stress of immediate necessity did the American electorate ever consent, grudgingly and complainingly, to have the revenues of government increased.

2. Moreover, these taxes had to be imposed indirectly, so that most people would not notice them. Most of the taxes paid by the people are included in the price for something else—all goods of whatever nature that are consumed, including food (which is taxed from its point of origin through the operations of processing and distribution), rent, etc. Many tax reformers are so annoyed by indirect taxes that they advocate systems of direct taxation on the theory, no doubt correct, that if people knew how much was really coming out of their pockets for taxes they would not allow the government to gather in such heavy revenues. So it is only because taxes are, as it were, sneaked out of people's pockets, in times of emergency, that the government obtains without insuperable difficulty the revenues thought necessary for its operation.

A LOOK at the way taxes are spent affords a similar insight into the popular attitude toward them. For very little of the tax money goes into necessary social improvements and cultural embellishments; most of it goes into paying for past and present wars. Future wars are paid for only to a slight extent; paying for them in advance would require more foresight than people as a whole seem capable of.

Because most of our taxes are imposed at the last minute, for an

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Excerpted from *The Treason of the People* by Ferdinand Lundberg. New York: Harper & Brothers. Copyright 1954. $4.50.

emergency, a considerable percentage of them is wasted as far as obtaining full value is concerned. Public opinion, first, is opposed to any planned, rational expenditure for purposes either of peace or war, and fights it to the last ditch. Then, when the stark necessity for government expenditure faces the country, either in peace or war, the pendulum of opinion swings violently in the opposite direction and there is both panicky overspending and spending that does not obtain solid value.

It was only under the spur of extreme and justified fright that after 1941 taxes of a size and extent never known before were imposed by the Government on a public that had seen a great fleet utterly destroyed by the Japanese in the twinkling of an eye. But although the public was now in a reckless mood . . . the recklessness stemmed in part from a desire to get the war quickly done with so that everybody could return as soon as possible to what were deemed proper concerns.

RESISTANCE to the payment of taxes, while evident on the national level, is most marked—and most effective—on the state and local levels, where for many years the crying need for improvements and mere maintenance has been neglected. Borrowing has been the most popular form of raising money for state and local improvements, and it has ceased only where state and local governments finally found their credit impaired—in other words, only when private lenders would no longer trust them. State and local governments borrowed to the hilt, however, as long as they could, and when they no longer could they turned to the Federal Government for aid because then it was possible to have the bills for improvements paid by people who weren't going to benefit directly from them.

There is a case to be made for Federal aid to local governments in economically backward and poor areas. Such areas are, manifestly, parts of the United States whose citizens may be useful elements of society, so there is no need to slight them. But if one looks closely into the whole program of Federal aid to local governments from the Public Works Administration onward to the present, one will find that much of this aid goes into regions that can easily afford to pay for the improvements themselves if they would only increase local taxes, which they decline to do.

As it was observed by Jacob Riis, a social reformer of great note around the turn of the century, people are opposed to necessary reforms chiefly on the

ground of their cost; those that are won come about only with painful slowness. Everybody, to be sure, is in favor of taxes imposed upon someone else. Hence the popularity of taxes on business. But such taxes are largely passed on in price, and hence are paid for by the ultimate consumer . . . as if they were sales taxes.

THERE IS, it is true, technical economic objection to the imposition of more business taxes, objection that has nothing to do with the public's ability to pay. For, as more business taxes are imposed, the risks to business enterprise are increased, and the opportunity of showing a profit in the market or even of breaking even is diminished. As such risks are increased, investment is retarded, for there is no use privately investing if one is not going to obtain a return or if one is going to run into an almost certain loss. But new investment, as most economists now seem to agree, is what gives our economic system its fundamental impetus. When new investment falls off heavily, the economic system functions more and more slowly, and individual distress results as individual incomes diminish and even disappear.

AT THIS point it becomes necessary for new capital investment to be made through the government, on the basis of borrowing and taxing. But the more of such governmental investment there is, the more the economic system tends to become nationalized leading toward what is known as State-ism. Many persons today argue in favor of State-ism in one form or another (fascist, socialist, communist, syndicalist), feeling that full progress will be made only when society is completely dominated by the State.

Although most of the ideological State-ists call themselves democrats—so powerful is the emotional response to this idea in Western culture—it should be obvious that, whether they are right or wrong in their general analysis, they are the antithesis of democrats. For they are sure, surveying the facts as we are doing here, that the people are not fit guardians of their own destiny and that the job must be done, if it is to be properly done, by a State run by more or less disinterested experts. ■

SHOE SALES RISE AND FALL with changes in consumer purchasing, a recent report reveals. Whenever the consumer's income rises, 1.6 to 1.7 percent of the increase is spent on shoes, and a decline in shoe sales follows a cut in income.

BOOKS IN REVIEW

The impact of psychology on the science of economics promises "a revolution in economic thought as profound as any that has yet occurred"

Reviewed by John S. Gambs

MAN, MOTIVES, AND MONEY. By Albert Lauterbach. Ithaca, N. Y.: Cornell University Press. $5.00.

IN "MAN, MOTIVES AND MONEY," Prof. Albert Lauterbach of Sarah Lawrence College penetrates deeply into the no-man's-land between economics and psychology. The purpose of his reconnaissance is to find out what economists can learn from the science of the mind. As an economist, Prof. Lauterbach asks many sharp questions about the validity of the science of economics and the adequacy of its psychological assumptions. Does, for example, the quest for profit, which is used to explain so much of economic behavior, stand up as a valid psychological concept? And, if so, does it explain more than a fraction of the businessman's motivations? Can boom and bust partly be explained by the personal insecurities of human beings? What economic reforms are made impossible by the fact that "you can't change human nature?"

Prof. Lauterbach's book is significant because it breaks cleanly with the most widely accepted psychological assumptions of traditional economics. Economists, at least many of them, think of psychology as a rather young and perhaps still flighty sector of science. This is understandable enough, since economics was pretty well developed one hundred years ago, while psychology was scarcely more than a notion in the heads of a few rapid partisans. To be sure, economists concede that a few fundamental ideas about how the mind works are important. But these ideas are thought to be the ordinary, indisputable data of experience. For example: leisure is more desirable than work; spending is fun while saving is irksome; a thirsty man will pay much for the first quart of water, but very little for a second or third; the dynamics of economic activity are provided by the profit motive; a long depression, unchecked, may add fuel to the

flames of revolutionary discontent.

On such apparently unshakeable rocks of psychological wisdom, much contemporary economic theory is built. Prof. Lauterbach does not, of course, repudiate such common-sense propositions. But he does ask if they are all really as solid as they would appear to be, whether they tell the whole truth, and whether there are not other equally fundamental psychological foundations on which to build the study of producing and distributing wealth.

In this book the author asks three major questions. What are the important motivations of business activity? What is the relationship between personality maladjustments caused by modern civilization and economic instability? What is the psychology of economic reform? Perhaps the best way to convey to the reader the content and method of the book is to select a few of the more striking of the author's conclusions under each of these three major problems.

FIRST COMES the motivation of business activity. The author quickly points out that there is no such thing as "business," if it is conceived as a single, easily definable activity. The small farmer is quite different from the corporation official who makes profits for others, who often forms part of a private bureaucracy and must be keenly sensitive to the internal and external politics of his firm. The farmer is more completely his own boss and may find satisfaction in his relationship to the forces of nature. To be sure, both want profits; but that is only half of the story. Similarly, when a man orders a twelve-dollar woodcock at Pierre's, he wants his ration of protein. But that, too, is only half the story. The point in each example is that vaguely defined but fundamental motivations are almost indistinguishably alloyed with the purely defined, self-seeking or utilitarian ones. In business, such fundamental motivations may include various kinds of compulsive behavior: self-assertion, quest for status, power or prestige, and finding outlets for truculent or romantic temperaments.

The economic differences between the quality of business enterprise in Europe and in the United States have often been commented upon. Prof. Lauterbach also considers these differences, but largely from the point of view of non-economic motivations. He also finds that business

John S. Gambs is Leavenworth Professor of Economics at Hamilton College, Clinton, N. Y. A self-styled pioneer in the exploration of the psychological frontiers of economics, Prof. Gambs is author of the noted book, *Man, Money and Goods.*

firms often do not move on to better locations, even though such relocations might inspire more profitable operations. Owners are frequently more loyal to their own town or state, to the small town way of life, or even to their own social and racial prejudices than to the quest for larger profits.

Of course, standard economists have never completely ignored consideration of such deviations from the rule of relentless profit seeking. They have even invented phrases such as "opportunity cost" to cover some of them. The difference between Prof. Lauterbach and many of his colleagues is that these deviations are not mere exceptions to which you give a name, but are serious enough to warrant a search for a new rule.

THE SECOND major topic of the book deals with the cause and effect relationship between personal insecurity and economic instability. Most of us accept the thesis that boom and bust, by causing or threatening bankruptcy, unemployment or the vanishing of savings through inflation may cause an anxious insecurity in private lives. This, in turn, may cause political action. Prof. Lauterbach accepts all this, too, but he asks the converse question: Does insecurity, arising out of all sorts of social and economic problems, help to cause or at least aggravate inflation, depression and the other major instabilties of economic life? The answer, in his opinion, is yes. Thus, public works, unemployment compensation and the like, however useful they may be to combat bad times, are not enough. Instability in economic life will never really be licked until we are able to reduce tensions and anxieties growing out of our economic and social environment. At one point, indeed, Prof. Lauterbach seems even to suggest that persistent infantile attitudes may actually prevent us from using remedies that will combat economic ups and downs.

Now, this is most interesting, for on such premises one is perhaps free to make some further deductions. For example, suppose we could, through better education, improve and enrich life in the home to the point where children's insecurities diminished from their present intensity. Then we shall also have made some progress towards moderating the severity of the business cycle. Such a conclusion does not easily lend itself to proof. On the other hand, few of the more strictly economic students of the business cycle would deny that psychological factors help to amplify the swings of the cycle. But while they would be willing to affirm this, they would not seek to identify the nature of the psychologi-

cal factors. This is Prof. Lauterbach's contribution.

The third major topic deals with the problems of economic reform and the predilections of the human mind. The author takes the position that reforms do not succeed unless they are widely desired—a simple proposition to be sure, but one which the economists have sometimes neglected. For centuries economists have consistently been advocating the free movement of goods from country to country; yet they are perennially exasperated by the public's illogic. Reform must be psychologically *valid* as well.

Prof. Lauterbach's basic assumption in his chapter on reform is that no economic system is so good that it cannot benefit from reform. Several psychological types are to be associated with reform: the constructive reformer, the man in revolt against everything, the conservative, the trade-unionist and the totalitarians of the right and of the left. There is also the indifferent man who shirks the responsibility of taking any position at all. Each of these psychological types is what he is because of the early experiences in the home, the vicissitudes of his life, rather than because he has made a rational choice to take this or that economic position. Since, in the author's view, the constructive reformer is the most desirable of the group, the aim of a democratic society should be to produce as many of these as possible. Because we have some clues as to which experiences and socio-economic circumstances produce one or the other of the psychological types, we have some control over selective production.

If this last sounds very much up in the air, it should be remembered that we are, in some instances, already trying to apply Prof. Lauterbach's theories to practical affairs. Much of American foreign aid is merely an attempt to give people abroad the specific socio-economic experiences which will turn them away from totalitarianism. And the case for maintaining a high level of employment at home can be buttressed by the argument that mass unemployment provides the basis for certain socio-economic experiences which would encourage the forces of destructive revolt, or even of totalitarianism.

THE CONCLUDING chapter contains, among other things, a list of reforms which the author feels will flow logically from the central theses of his book. Most of these reforms stress the psychological rather than the strictly economic. Housing, for example, is not discussed in terms of so many cubic feet per person or so many gar-

bage choppers per hundred, but in terms of "a real home for everybody." Prof. Lauterbach asks not only for adequate old-age pensions, but also for "an old-age way of life" that offers to our senior citizens the possibility of continued "activity and feeling of social utility." He does not ask only for employment, but also for the opportunity to enjoy the work. Prof. Lauterbach's stress on the psychological outcomes expected of economic reform reveals clearly the stamp of his mind and the distinguishing trait of this volume.

How, as we shut the book and try to appraise its wider significance, what have we? First of all, it is only fair to others to recognize that Prof. Lauterbach is not a trail-blazer. J. A. Hobson, John M. Clark, George Soule, the late Wesley Mitchell and numerous others —even this reviewer—have in their writings called upon economists to scrutinize more closely than they habitually do the contributions that psychology can make to economics. To this growing literature, rendered more self-confident by the leaps and bounds psychology itself has taken in the past generation, Prof. Lauterbach has added worthily. His effort is constructive in the sense that he does not, at one fell swoop, seek to tear down what economists have done and to substitute his own psycho-economics in its place. Prof. Lauterbach's work is, he admits, of limited scope and is perhaps oriented in the direction of social controls rather than of general theory. Still, it suggests how a more general economic theory might be developed out of psychological data.

As things stand today, psychologists have much more to contribute to economics than they had a few short decades ago. They have now had considerable experience in the laboratory, with controlled experiments and with patient testing of hypotheses. They claim some of the great minds of modern times. Their lusty infant, social psychology, has developed ingenious methods of inquiry into social and even economic problems based on human relations. Some of these could fruitfully be taken over by economists—if psychologists do not get there first.

It cannot be denied that economic behavior is a mere subdepartment of human behavior. One may reasonably conclude from the appearance of Prof. Lauterbach's book that the reconstruction of economic theory through psychology is coming of age. It is too early to tell what the outcome will be, but one may venture the guess that the next generation will see a revolution in economic thought as profound as any that has yet occurred. ■

a personal note

from the editor

Encouraging economic progress:

to what ends?

THERE IS AN UNFORTUNATE TENDENCY on the part of some people to view economic and social considerations as separate entities and often as emanating from values which are diametrically opposed.

During the past five years I have received many letters and listened to many people contending that social and humanitarian values are hardly ever considered when the economic side of life is stressed.

Just a few days ago I was confronted by two social workers who felt that CHALLENGE was a particularly callous publication because it always sounded as though the only important things in the world were better machines and higher productivity figures! Of what use is a record year of production or high stock market quotations, if there are thousands of people in one city alone who are economically destitute? What is the value of producing and selling hundreds of thousands of automobiles per year, if the figures on juvenile delinquency are constantly rising? And what is the purpose behind figures which show an ever-widening distribution of ownership in corporate stock, if there is an abundance of people who persist in striving to inherit the earth and lose their souls? These were some of the questions my social-worker friends threw at me; and many others, too, all of which give food for thought.

This "personal note" does not constitute a defense of the editorial policy of CHALLENGE. Rather, I prefer to look upon it as a mental exercise on paper. It probably will not convince anyone who does not already see the relationship between higher productivity and a higher standard of living, or the relationship between a higher standard of living and better social conditions. But it might serve to explain somewhat that if the contents of CHALLENGE do not specifically spell out the social and humanitarian aspects of economic policy, at least our personal motives really are to encourage a better world in which we might all live.

Perhaps we have been a bit too rabid about our own specific field of interest. Perhaps we have overlooked some other values which are important to the world. But are these omissions any greater than

those of my social-worker friends, who are so intent upon bettering the world that they have not given thought to the economic practices which can help the process? I think not. And if they forgive me for my oversight, I shall forgive them for theirs.

I realize that it must be very distressing to come into daily contact with those unfortunate souls who must, for one reason or another, seek public assistance. The vibrant power of our productive capacity could appear somewhat diminished when one is confronted with the plight of sick people, the elderly, the widowed and the abandoned. But has it occurred to the social worker that as underpaid as he may be, and as marginal as assistance to public charges may be, the entire cost of social work and of public assistance is supported by the fruits of the economic progress we have been able to achieve?

Social workers are an oddity in impoverished societies. And even in a country like India which is on the road to economic development, the good that the social worker can do is greatly diminished by the paucity of resources which Indian society can command.

I AM NOT SAYING that the better world which a social worker seeks is already here. We know there is plenty of room for improvement. But how to achieve that improvement? There can be no perfection, because perfection is a relative thing. Our concept of perfection changes and becomes more ambitious as general conditions are improved. The resources of the social worker can be no greater than the resources of his society. But the resources must be provided before we can think about the social ends to which they can be applied.

Obviously, the end purpose of a more efficient and productive economy is to better the material state of mankind. I am willing to admit that there are other values in life besides the attainment of material welfare, and that some of these other values transcend in importance the attainment of material comforts. But how culpable can we be if our main objective, even though it lacks emotion and color, is to encourage an economic system which can provide enough food for everyone, enough clothing and homes, schools and hospitals, time for relaxation, some comforts and a few luxuries? Will our humanitarian and social values become stunted because the majority of our people are attaining an appreciable level of material comfort? Certainly there is more to life than economics. But if we lend encouragement to the study of and thought about economic values, are we discouraging or *encouraging* concern with perhaps even greater values?—H.B.